

**NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
MINUTES OF THE
NOVEMBER 20, 2008, BOARD MEETING**

BOARD MEMBERS PRESENT: Mike Gessner, President
Clarence Corneil, Trustee
Kim Franz, Trustee
Lowell Latimer, Vice President
Wayne Sanstead, State Superintendent
Kelly Schmidt, State Treasurer
Bob Toso, Trustee

STAFF PRESENT: Steve Cochrane, Executive Director
Fay Kopp, Deputy Executive Director
Ruby Benning, Office Assistant
Paula Brown, Retirement Programs Specialist
Les Mason, Internal Audit Supervisor
Darlene Roppel, Administrative Assistant
Shelly Schumacher, Retirement Program Manager
Dottie Thorsen, Internal Auditor
Denise Weeks, Retirement Programs Specialist

OTHERS PRESENT: Chris Conradi, GRS
Dr. Warren A Henke, Retired Teacher
Gary Rath, NDEA
Leslie Thompson, GRS
Ken Tupa, NDRTA
Aaron Webb, Attorney General's Office

CALL TO ORDER:

Mr. Mike Gessner, President of the Teachers' Fund for Retirement (TFFR) Board of Trustees, called the meeting to order at 1:00 p.m. on Thursday, November 20, 2008, at the State Capitol, Ft. Union Room, Bismarck, ND.

THE FOLLOWING MEMBERS WERE PRESENT REPRESENTING A QUORUM: PRESIDENT GESSNER, MR. CORNEIL, MRS. FRANZ, DR. LATIMER, DR. SANSTEAD, TREASURER SCHMIDT, AND MR. TOSO.

APPROVAL OF AGENDA:

The Board considered the meeting agenda.

TREASURER SCHMIDT MOVED AND MR. CORNEIL SECONDED TO APPROVE THE AGENDA AS PRESENTED.

AYES: TREASURER SCHMIDT, MRS. FRANZ, DR. SANSTEAD, MR. TOSO, PRESIDENT GESSNER, MR. CORNEIL, AND DR. LATIMER.

NAYS: NONE

MOTION CARRIED.

MINUTES:

The Board considered the minutes of the September 25, 2008, board meeting.

DR. LATIMER MOVED AND DR. SANSTEAD SECONDED TO APPROVE THE MINUTES OF THE SEPTEMBER 25, 2008, BOARD MEETING.

AYES: PRESIDENT GESSNER, MR. TOSO, DR. LATIMER, TREASURER SCHMIDT, MR. CORNEIL, DR. SANSTEAD, AND MRS. FRANZ.

NAYS: NONE

MOTION CARRIED.

2008 ACTUARIAL VALUATION REPORT AND FUNDING ISSUES:

Mrs. Fay Kopp, Deputy Executive Director, introduced Mr. Chris Conradi, Senior Consultant, Gabriel Roeder Smith & Company (GRS), Dallas, TX, and Ms. Leslie Thompson, who is an actuary with GRS, Denver, CO.

Mr. Conradi presented TFFR's Actuarial Valuation as of July 1, 2008. He explained the purpose of the annual valuation is to calculate the actuarial liabilities for the fund, determine the adequacy of the current statutory contribution rate, explain changes in actuarial condition of TFFR, track changes over time, and warn about possible future problems and issues.

The legislation that was passed in 2007 is reflected in the 2008 valuation report. New members as of July 1, 2008 are Tier 2 members who have Rule of 90 instead of Rule of 85 for unreduced retirement, five year final average compensation, and five year vesting. In addition, the employer contribution rate increased from 7.75% to 8.25%, and employer contributions must be paid for re-hired retirees.

Mr. Conradi stated the number of active members decreased by 38 from 9,599 to 9,561 (0.4% decrease). This includes the 16 Career and Tech Ed employees who transferred to North Dakota Public Employees Retirement System (NDPERS), which was also a consequence of 2007 legislation. Payroll for active members has increased 4.1%, from \$401.3 million to \$417.7 million. Average pay for active members increased 4.5%, from \$41,810 to \$43,684. The average age of active members is 44.6, compared to 44.7 last year and to 43.5 ten years ago. Average years of service is 14.4, compared to 14.5 last year and 14.0 ten years ago. There are also 1,459 inactive, vested members and 229 inactive nonvested members included in the liabilities.

The number of annuitants increased by 240 from 6,077 to 6,317 (3.9% increase). The average annual retiree benefit is \$17,728. There are 1.5 active members for each retiree, which has decreased from 2.2 ten years ago.

Fair market value of assets decreased from \$2,030 million (June 30, 2007) to \$1,846 million (June 30, 2008). There were \$36.9 million (including service purchases) in member contributions, and \$33.7 million in employer contributions. There will be some increase this year with the employer contribution rate going to 8.25% for fiscal year (FY) 2009. Total distributions which include benefit payments, refunds and administrative expenses totaled \$113.6 million. Therefore, the net external cash flow (contributions less benefits and refunds) was -\$43.0 million, or -2.3% of market value of assets at the end of the year. This is not currently a problem.

The return on market was approximately -7.0% in FY 2008. The 15-year average return was 8.3%, which is still above the assumed 8.0% investment return assumption. This is the first year below expected market return after four strong years. Actuarial value is now \$1,909 million vs. \$1,750 million last year. Actuarial value is 103% of fair market value compared to 86% last year. There is \$63.4 million in deferred losses not yet recognized.

TFFR's unfunded actuarial accrued liability (UAAL) decreased from \$459.2 million to \$421.2 million. The funded ratio based on actuarial value increased from 79.2% to 81.9%, but the funded ratio using market value is 79.2%, down from 91.9%. The UAAL is 100.8% of covered payroll, compared to 114.4% last year. The negative margin improved from -2.40% to -0.99%. The funding period based on 8.25% employer rate is 57 years compared to infinite last year. TFFR's employer contribution rate for FY 2008 was 76.4% of Governmental Accounting Standards Board (GASB) Annual Required Contribution (ARC). Contribution for FY 2009 will be 89.3% of ARC.

Based on actuarial projections using varying investment returns for 2009 and 8% investment return for future years, Mr. Conradi projects that TFFR's funded ratio will decrease, contribution margin will never become positive, and the UAAL will continue to grow. Mrs. Kopp described additional projections assuming an estimated -24% investment return for FY 2009 and 8% for the following years which showed faster and deeper funded ratio declines.

The Board discussed benefit protections for current members and retirees. The Board also discussed funding projections, estimated investment returns, possibility and timing of a market recovery, and the impact of the current economic crisis on TFFR. Mr. Conradi indicated the Board should consider future legislation to include increasing employer contributions to offset investment losses. He also indicated that retiree

benefit increases should not be funded out of TFFR since they would further increase TFFR's liabilities.

Mr. Steve Cochrane, Executive Director, discussed asset allocation, and recommended that the Board maintain their current allocation for the time being, and conduct their regularly scheduled asset liability modeling study in 2010. The Board directed staff to include asset allocation review on the January 2009 meeting agenda.

Board members generally agreed that because of the extreme market volatility, it may be premature to propose legislation to increase contributions in 2009 without additional review. They also agreed that a legislative proposal to increase employer contributions should be considered for 2011, along with possible other benefit modifications. Additional input from member and employer interest groups and study by the Board, staff, and actuary is needed.

After discussion and questions,

TREASURER SCHMIDT MOVED AND MRS. FRANZ SECONDED TO ACCEPT THE 2008 VALUATION REPORT AS PRESENTED.

AYES: MR. CORNEIL, DR. SANSTEAD, DR. LATIMER, PRESIDENT GESSNER, TREASURER SCHMIDT, MR. TOSO AND MRS. FRANZ.

NAYS: NONE

MOTION CARRIED.

Ms. Thompson reported on the current environment for public sector retirement plans. She indicated that like TFFR, most are assessing the impact of the market returns on their pension plans. She also described issues relating to funding retiree health care, subsidized vs. unsubsidized early retirement, retiree re-employment, defined benefit vs. defined contribution plans, and market value of liabilities debate.

INVESTMENT UPDATE:

Mr. Cochrane gave an update on the TFFR investment program. The estimated net return through November 19, 2008, for TFFR was -29.25%. Mr. Cochrane outlined current economic statistics and issues. A copy of this report is on file at the Administrative Office.

Mr. Cochrane also informed the Board that The Clifton Group has been retained by the SIB to implement their Policy Implementation Overlay Service (PIOS). This service uses highly liquid, exchange traded futures contracts to gain or reduce exposure to asset classes and seeks to avoid forcing sales of securities with unrealized losses. This firm will be at the SIB meeting on November 21, 2008 to present an update on the program. Greg Allen, President of Callan Associates, will review the current state

of the markets and lend his insights into asset allocation issues and implications.

Board discussion and questions followed.

The meeting recessed at 2:50 p.m. and reconvened at 3:05 p.m.

LEGISLATIVE UPDATE:

Mrs. Kopp reported on the final Legislative Council Employee Benefits Programs Committee meeting held October 21, 2008. Bill No 100 (sponsored by the TFFR Board), which includes technical and administrative changes, received a favorable recommendation.

TREASURER SCHMIDT MOVED AND MR. CORNEIL SECONDED TO PRE-FILE BILL NO. 100 WITH THE 2009 LEGISLATIVE ASSEMBLY.

AYES: MRS. FRANZ, TREASURER SCHMIDT, PRESIDENT GESSNER, DR. LATIMER, DR. SANSTEAD, MR. CORNEIL, AND MR. TOSO.

NAYS: NONE

MOTION CARRIED.

Mrs. Kopp also described in detail the provisions of Bill No. 109 which is sponsored by Senator O'Connell on behalf of NDRTA. Bill No. 109 received no recommendation from the Committee. This bill, as recently amended, provides retiree supplemental payments in 2009 and 2010, which would be funded by an \$11 million general fund transfer. The administrative costs to implement this bill would also be paid with this transfer. The supplemental payments are for those who retired before January 2009. Each payment is equal to an amount determined by taking \$24 per year of service credit, plus \$18 per number of years since the member's retirement. The supplemental payment cannot exceed the greater of 10% of the member's annual annuity or \$750. Payments would be made in December 2009 and December 2010. After discussion, the board decided not to take a formal position on this bill since it is not funded through TFFR.

ANNUAL TFFR PROGRAM AUDIT REPORT:

Mr. Les Mason, Internal Audit Supervisor, presented the TFFR Audit Program annual report. The 11 school districts audited were either in compliance or generally in compliance with state law and state administrative code. He indicated the Internal Audit division is behind in school district audits completed, and plans to increase the number of audits in the next year. Other audits conducted include the retiree benefit payments audit, participants data audit, and file maintenance audit. No significant exceptions were noted. Mr. Mason also stated the external audit conducted by Brady, Martz and Associates resulted in the

issuance of a clean opinion. A copy of Mr. Mason's report is on file at the Administrative Office.

MR. CORNEIL MOVED AND DR. SANSTEAD SECONDED TO APPROVE THE ANNUAL TFFR AUDIT PROGRAM REPORT.

AYES: DR. LATIMER, MRS. FRANZ, DR. SANSTEAD, MR. TOSO, MR. CORNEIL, TREASURER SCHMIDT, AND PRESIDENT GESSNER.

NAYS: NONE

MOTION CARRIED.

ANNUAL SERVICE PURCHASE REPORT:

Mrs. Shelly Schumacher, Retirement Program Manager, presented a report highlighting the TFFR service purchase statistics over the past ten years. The number of requests to purchase service credit nearly doubled (228) in the 6 month period prior to July 1, 2008 which was the effective date for updating the factors and methodology used to calculate the actuarial cost to purchase service. Of the 228 requests, 183 members (80%) actually purchased service credit before the cost increase, which is an increase of about 25% over the number who usually purchase. For 2008, 39 of the 310 retirements (13%) purchased service credit and retired. In 2007, 40 of the 332 retirements (12%) purchased service credit and retired in the same year.

DR. SANSTEAD MOVED AND DR. LATIMER SECONDED TO APPROVE THE ANNUAL SERVICE PURCHASE REPORT.

AYES: MR. TOSO, DR. SANSTEAD, MR. CORNEIL, MRS. FRANZ, TREASURER SCHMIDT, PRESIDENT GESSNER, AND DR. LATIMER.

NAYS: NONE

MOTION CARRIED.

Treasurer Schmidt left the meeting at 3:55 p.m.

CONSENT AGENDA:

MR. CORNEIL MOVED AND MR. TOSO SECONDED TO APPROVE THE CONSENT AGENDA WHICH INCLUDED ONE DISABILITY AND ONE QDRO APPLICATION.

AYES: DR. SANSTEAD, MR. TOSO, DR. LATIMER, PRESIDENT GESSNER, MRS. FRANZ, AND MR. CORNEIL.

NAYS: NONE

MOTION CARRIED.

OTHER BUSINESS:

Mrs. Kopp stated TFFR received the 2008 Public Pension Coordinating Council (PPCC) Recognition Award for Administration in recognition of meeting professional standards for plan administration as set forth in the Public Pension Standards.

Mr. Latimer submitted an article from the National Education Association (NEA) Pension Trustee Group to the board reading materials.

EXECUTIVE SESSION - ATTORNEY CONSULTATION:

President Gessner advised the Board that it would go into Executive Session for attorney consultation relating to a potential litigation issue. Under North Dakota Century Code (NDCC) 44-04-19.1(2), the Board has the legal authority to meet in Executive Session for the purpose of attorney consultation. President Gessner reminded the Board that Executive Session discussion must be limited to the attorney consultation topic only.

EXECUTIVE SESSION

Executive Session attendees included: Mr. Corneil, Mrs. Franz, President Gessner, Dr. Latimer, Dr. Sanstead, Mr. Toso, Mr. Webb and RIO staff.

Executive Session began at 4:10 p.m. and ended at 4:55 p.m.

OPEN SESSION

MR. TOSO MOVED AND DR. SANSTEAD SECONDED TO ADOPT ADMINISTRATIVE LAW JUDGE (ALJ) HOBERG'S FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER. IN ADDITION, TO HAVE GENERAL COUNSEL COMPLETE THE DRAFTING OF A NOTICE OF BOARD RE-DETERMINATION OF MEMBER BENEFITS IN ACCORDANCE WITH FINAL ORDER, PROVIDING FOR THE BOARD'S INTERPRETATION OF THE ALJ'S FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER, AS DISCUSSED IN CLOSED SESSION. THIS NOTICE SHALL SPECIFY THE INCREASE IN MEMBER BENEFITS AND SHALL INCLUDE A SUMMARY TO BE PROVIDED BY MRS. KOPP TO THE BOARD. THIS NOTICE WILL BE SIGNED BY THE PRESIDENT ON BEHALF OF THE BOARD.

AYES: DR. LATIMER, MRS. FRANZ, DR. SANSTEAD, MR. TOSO, PRESIDENT GESSNER, AND MR. CORNEIL.

NAYS: NONE

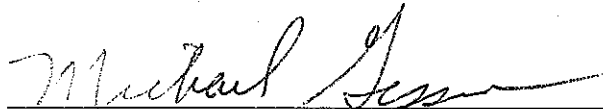
MOTION CARRIED.

The next regular board meeting will be held on January 22, 2009, at the Bank of North Dakota.

ADJOURNAMENT:

With no further business to come before the Board, President Gessner adjourned the meeting at 4:58 p.m.

Respectfully Submitted:

A handwritten signature in cursive script, appearing to read "Michael Gessner", written over a horizontal line.

Mr. Mike Gessner, President
Teachers' Fund for Retirement Board

A handwritten signature in cursive script, appearing to read "Darlene Roppel", written over a horizontal line.

Darlene Roppel
Reporting Secretary